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C O N F I D E N T I A L SECTION 01 OF 02 KYIV 001777

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TAGS: [EFIN](#) [EREL](#) [ETRD](#) [PGOV](#) [PREL](#) [UP](#) [XH](#)
SUBJECT: EXTORTION, BRIBES, AND THREATS: A KYIV BANKER'S
LAMENTATIONS

REF: KYIV 1760

Classified By: Acting Economic Counselor Kaye Lee for Reasons 1.4 (b) and (d)

¶1. (C) Summary. Second-tier oligarchs and members of the Ukrainian parliament are extorting from the country's banks and threatening bankers, said a representative of Austrian-owned Raiffeisen Aval. The powerful borrowers act with impunity, having paid off the court system to evade their debt obligations. Deliberate non-payment of loans has risen to equal roughly one-third of Raiffeisen Aval's non-performing assets, with most unpaid debts valued at \$10-25 million and thousands of cases under litigation. In the view of Western banks, the public disclosure by Nadra of its borrowers this week, a move likely backed by President Yushchenko, was the first open display of intolerance toward such delinquency and may lead toward further push back by banks. End summary.

THE "SINGLE GREATEST RISK"

¶2. (C) A representative from Raiffeisen Aval, Ukraine's largest foreign-owned bank and a subsidiary of Vienna-based Raiffeisen Zentralbank, one the largest financial sector investors in eastern Europe, described what he perceived as the "single greatest risk" to Ukraine's banking system. Acknowledging other major concerns for bankers, such as a possible exchange rate overshoot scenario and "almost predictable mismanagement" by the National Bank of Ukraine (NBU), Raiffeisen Aval board member Artur Aliev told Econoff on October 15 that loan defaults by mini-oligarchs and well-known politicians were causing the biggest headaches in the industry. The total volume of "deliberate" loan defaults frequently fluctuated, but now stood at roughly one-third of Raiffeisen Aval's non-performing loans. The individual average amount of such loans was \$10-25 million. (Note: Deliberate loan defaults are non-payments of loan obligations by choice, rather than financial necessity. They often occur when banks lack access to collateral, credit bureaus, or similar payment enforcement mechanisms. End note.)

¶3. (C) Aliev defined the caste of worst offenders as being "one step below" the nation's richest businessmen. Tycoons in major export-oriented industries had thus far remained compliant, due to their interest in maintaining long-term credit worthiness. However, members of the Rada (Ukraine's parliament) and their close relatives, particularly those with legally complex holding companies, had flatly refused to pay debts since the beginning of Ukraine's economic crisis. According to Raiffeisen Aval, such derelict clients were now acting with greater impunity in the run-up to the

presidential election.

14. (C) One borrower dared Raiffeisen Aval on October 14 to take him back to court, threatening to declare (an artificial) bankruptcy if the bank pursued further legal means. The borrower demanded that his loan be converted into hryvnia at a rate of UAH 5.05/\$1 (the current inter-bank exchange rate is roughly UAH 8.25/\$1), and he called for the bank to offer a coupon discount. Now in the midst of the "5th or 6th court case" with this client, Raiffeisen was concerned to show that it would accept reasonable restructure offers while not backing down in the face of threats. The bank's leadership had taken a position that it would pay no bribes to judges, even though the court system exuded "pure corruption." Currently, Raiffesen Aval is litigating "thousands" of court cases against its borrowers.

15. (C) To highlight one of the most blatant examples of non-payment, Aliev disclosed the names of Anton Viktorovich Shishkin and Mikhail Abramovich Golubitskiy, shareholders of Ukrzernoprom, a Ukraine-based food product and bread making company. Allegedly having strong ties to U.S. business concerns, Shishkin and Golubitskiy -- both public figures in Ukraine -- had refused to make payments on or even negotiate with Raiffeisen on Ukrzernoprom's defaulted \$14 million loan, which had been extended for business investment and working capital. Aliev speculated that Shishkin was "well-connected" with Rada deputies, had been actively involved in Ukraine's upcoming presidential election, and was a major supporter of the candidacy of Arseniy Yatsenyuk.

16. (C) Raiffeisen Aval board members, having attempted to

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track down debts, were regularly receiving physical threats "reminiscent of Russia in the 1990s." The bank also had been the subject of numerous "black PR" attempts in recent days. Raiffeisen Aval was putting in place new security policies for employees, such as a prohibition against walking alone in the dark in Kyiv, to preserve the physical safety of its roughly 25 foreign managers and experts.

NADRA DISCLOSURE: A SIGN OF RESISTANCE

17. (C) The release this week by Nadra of the bank's 42,000 borrowers, who owe a collective UAH 8.5 billion (nearly \$1 billion), was an "aggressive" move in the face of chronic non-payment by borrowers (reftel). In the eyes of foreign banks, President Yushchenko's apparent support for the Nadra disclosure was a sign of "resistance," as well as a signal to borrowers that they would face tough scrutiny when financial markets opened up again after the crisis.

18. (C) Aliev lamented that bank secrecy laws had prevented Raiffeisen Aval and other foreign-owned banks from developing and sharing databases of delinquent clients, even though he said such file sharing already occurred informally under the veil of confidentiality. Aliev specifically mentioned Raiffeisen Aval's information exchanges with BNP Paribas, UniCredit, and OTP Bank, a practice that representatives from these banks had acknowledged separately.

COMMENT

19. (C) Raiffeisen Aval's attempt to reach out to the diplomatic community with direct allegations of criminal extortion and bribery is a sure sign of waning confidence in Ukraine's business climate among bankers. Having called on us to discuss a triad of concerns -- the money supply (which has contracted to dangerous levels) and NBU turmoil (with top leadership paralyzed by Ministry of Interior investigations) being the other two -- Aliev's descriptions of borrower delinquency are an important warning about financial sector instability in the run-up to Ukraine's presidential election.

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